



Northumberland

County Council

AUDIT COMMITTEE

27 January 2021

Northumberland County Council – Consideration of ‘Going Concern Status’ for the Statement of Accounts for the year ended 31 March 2020

Report of Chris Hand, Executive Director of Finance

Cabinet Member: Councillor Nicholas Oliver – Cabinet Secretary and Portfolio Holder for Corporate Services

1. Purpose of the Report

Northumberland County Council is required to assess whether it should be considered as a ‘going concern’ organisation, and whether the Council’s annual accounts should be prepared on that basis. This report considers the Council’s status as a going concern and recommends that Members approve this.

2. Recommendations

It is recommended that Members of the Audit Committee approve that:

- the Council is considered to be a going concern and that the accounts are prepared on that basis.

3. Key Issues

When preparing the annual statement of accounts, the Council complies with the Code of Practice on Local Authority Account 2019-20 (the Code), as published by the Chartered Institute of Public Finance and Accountancy (CIPFA). The Code requires the accounts be prepared on a going concern basis.

This means that the accounts should be prepared on the assumption that the authority will continue in operational existence for the foreseeable future.

The assumption that a local authority’s services will continue to operate for the foreseeable future is made because local authorities carry out functions essential to the local community and are themselves revenue raising bodies (with limits on their revenue raising powers arising only at the discretion of central government).

This report details the management consideration of Going Concern as at 31 March 2020, and beyond. The reasons for recommending that the Council be considered

as a going concern and that it is appropriate for the statement of accounts to be prepared on that basis are summarised below:

- The Code confirms that on the basis that local authorities 'cannot be created or dissolved without statutory prescription, it would not be appropriate for their financial statements to be provided on anything other than a going concern basis'.
- The financial position of the Council remains strong. The Council was able to set a balanced budget for 2020-21 and has a strong record of delivering within budget and achieving savings.
- As at 31 March 2020, the Council held general reserves of £56.928 million and reserves earmarked for specific future purposes, including those held for schools, of £122.814 million.
- The Council has a history of stable finance and ready access to financial resource in the future.
- There are no significant financial, operating, or other risks that would jeopardise the Council's continuing operation.
- The Covid-19 pandemic and subsequent national restrictions has had a significant impact on the operation of the Council and given rise to significant and exceptional costs, as well as loss of income. However, the Government have provided significant and ongoing financial support to local authorities and the Council has continued to provide services to its residents throughout the pandemic.

Based on the assessment undertaken, the Executive Director of Finance and Section 151 Officer's view is that the Council is aware of the challenges it faces and is prepared to deliver its services in the future taking account of known risks, and therefore the Council is a going concern and the Statement of Accounts should be and have been prepared on that basis.

4. Background

The general principles adopted in compiling the Statement of Accounts are in accordance with the Code of Practice on Local Authority Accounting 2019-20 (the Code) as published by the Chartered Institute of Public Finance and Accountancy (CIPFA). The Code defines proper accounting practices for local authorities in England, Wales, Scotland, and Northern Ireland.

The Code requires that a local authority's Statement of Accounts is prepared on a going concern basis; that is, the accounts should be prepared on the assumption that the authority will continue to be in operational existence for the foreseeable future. This means that the Comprehensive Income and Expenditure Statement and Balance Sheet assume no intention to significantly curtail the scale of the operation.

An inability to apply the going concern concept can have a fundamental impact on the financial statements. In reality, it would be highly unusual for a local authority to have a going concern problem. There may be cases where part of an authority's operation ceases to be viable or affordable. However, this will not give rise to a going concern issue for the authority given that the impact would be restricted to only that part of the operation. Transfers of services under combinations of public sector bodies similarly do not negate the presumption of going concern.

An organisation must consider its financial performance to assess its ability to continue as a going concern. This assessment should cover historical, current, and future performance.

Financial Position 2019-20

The Council has a strong record of delivering within budget and achieving savings.

In February 2019 the Council set its 2019-20 budget and identified savings of £12.798 million and the use of £1.928 million from the Strategic Management Reserve to support the budget.

The Council carries out frequent management accounts reporting to enable effective budget monitoring, to ensure that budget holders regularly assess delivery against budget and allow time for considered actions. Revenue monitoring has been reported on a quarterly basis to the Cabinet and the final revenue outturn position, subject to audit, was an underspend of £1.495 million after accounting for transfers to earmarked reserves and provisions of £0.878 million. This in turn increased the general fund reserve from £55.433 million to £56.928 million as at 31 March 2020.

Capital monitoring has been reported quarterly to the Cabinet and the final capital outturn position was an underspend of £10.307 million when compared to the revised budget of £149.853 million.

The Housing Revenue Account (HRA) outturn is an overspend of £0.548 million (after allowing for the transfer of £2.000 million to an earmarked reserve), which has been transferred from the HRA reserve, resulting in a reduction in the reserve balance to £28.264 million. The earmarked HRA reserve for supporting the delivery of the housing development plan is £4.000 million at 31 March 2020.

The HRA 30-year Business Plan specifically assesses the future sustainability of the HRA and is reviewed at least twice a year as part of the budget setting and final accounts processes. It is currently estimated that the HRA business plan is sustainable.

The financial position of the Council remains healthy. Net assets at 31 March 2020 amounted to £257.445 million (£276.487 million on a Group basis). This is a decrease of £96.607 million during 2019-20, which is mainly due to an increase in the estimated pension liability for employees of £90.270 million. This is calculated by the Pension Fund Actuary, and statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy. In addition, there was an increase in long-term borrowing of £72.184 million, as maturing existing

loans were replaced and new loans taken out to support the capital programme. This was offset by an increase in short term investments of £72.067 million, mainly as a result of additional and accelerated Government grant funding, to address the Covid-19 pandemic, and income from borrowing earlier than anticipated to take advantage of attractive interest rates.

Medium-Term Financial Plan 2020-21 to 2021-22

The Council approved its budget for 2020-21 and Medium-Term Financial Plan (MTFP) 2021-22, in February 2020.

The Council has continued to effectively manage its resources during a period of increasing cost pressures and funding uncertainty. The future funding outlook for the public sector and local government is extremely uncertain and the impact of Covid-19 and the recovery from it will undoubtedly impact on the Council and its communities for a number of years.

The financial landscape for the Council is likely to remain challenging for the foreseeable future. The delay to the Comprehensive Spending Review means that there will be little certainty over the Council's longer-term funding outlook, and this will need to be carefully managed as the Council considers the recovery actions it needs to take and commit to. In addition, the Fair Funding Review and move to 75% Business Rate Retention have been delayed again with an earliest implementation date of 2022-23. The outcome of these reviews will determine the quantum of funding available to local government and the share available to the Council.

The Covid-19 outbreak has had a significant financial impact on the Council in 2020-21 and the recovery will take place over a number of years. The Council began to experience the impact of the outbreak in March 2020, following the national lockdown announced by the Government on 17 March 2020. A number of front-line services and facilities were impacted by the restrictions and the Council needed to mobilise to support residents, suppliers, and businesses during the pandemic. There has been an increase in claims for Local Council Tax Support and a reduction in business rate income due to rate reliefs and business closures.

Consequently, the Council has suffered reductions in income in 2020-21 and this is likely to continue in future years. The Council's spending has also significantly increased to cope with the outbreak.

The Government has provided local authorities with Covid-19 financial support measures, providing additional funding for cost pressures and compensation for lost income. However, the duration of this financial support and the extent to which cost pressures and reductions in income will be reimbursed remains unclear. The wider and long-term economic impact of the pandemic on the Council's tax base is also unknown. This represents a financial risk to the Council that will form part of future medium-term financial planning.

The Council continues to face a range of significant budget pressures including general inflation, cost pressures in the care sector, increases in the number of adults

and children needing support and rising levels of need, increases in demand for everyday services as the population grows, and increases in core costs such as wage increases, the national living wage and pension contributions.

The MTFP sets out the Council's approach to achieving a sustainable budget over the medium term whilst ensuring that all revenue resources are directed towards corporate priorities. The MTFP describes the financial direction of the Council over the planning period and outlines the financial pressures it will face.

The Council's MTFP has focussed on protecting front line services as far as possible, prioritising efficiencies from back office functions and maximising income. To support transformation work, the Council has invested in resources for Innovation and Improvement, to work across a number of workstreams, including Digital, Service Reviews, Place Based Shaping, Workforce, and Business Development and income generation.

The Council has a strong track record of savings delivery, with £12.798 million delivered during 2019-20 and additional savings of £9.800 million approved for 2020-21.

In general, the Council has been relatively accurate in forecasting the level of savings required, which has allowed the development of strong plans and enabled the Council to robustly manage the implementation and delivery on time, including meeting extensive consultation and communication requirements. This has put the Council in a strong position to meet the ongoing financial challenges across this MTFP and beyond. However, savings proposals are becoming more complex and difficult to deliver and this may require increased utilisation of reserves to offset any delays and smoothing of reductions.

After taking into account base budget pressures, additional investment and savings, the Council's net budget requirement for 2020-21 is £314.648 million.

The financing of the net budget requirement is detailed in the following table.

Financing Of the 2020-21 Budget

Funding Stream	Amount £m
Council Tax	200.886
Retained Business Rates	78.837
Revenue Support Grant	10.451
Other Corporate Grants	28.850
Strategic Management Reserve	2.160
General Fund Reserve	-6.536
Total	314.648

The Council has been able to set a balanced budget for 2020-21 and has a clear plan in place to invest in capital infrastructure and to deliver local services over the life of the MTFP, and beyond. Based upon this, it is evident that the Council is a going concern.

5. Reserves

Reserves are held as a:

- Working balance to help cushion the impact of any uneven cash flows and avoid unnecessary temporary borrowing
- Contingency to cushion the impact of any unexpected events or emergencies
- Means of building up funds, earmarked reserves to meet known or predicted future liabilities.

As at 31 March 2020, the Council held general reserves of £56.928 million and reserves earmarked for specific future purposes, including those held for schools, of £122.814 million.

Details of individual reserves are contained within Appendix A.

Based on the level of reserves held, the Council has demonstrated robust financial management that underpins its status as going concern.

6. Conclusion

Based on the assessment undertaken, the Executive Director of Finance and Section 151 Officer's view is that the Council is aware of the challenges it faces and is prepared to deliver its services in the future taking account of known risks, and therefore the Council is a going concern and the Statement of Accounts should be and have been prepared on that basis.

IMPLICATIONS ARISING OUT OF THE REPORT

Policy:	None.
Finance and value for money:	The Statement of Accounts summarises the financial performance of the Council for the 2019-20 financial year.
Human Resources:	None.
Legal:	None.
Procurement:	None.
Property:	None.
Equalities:	None.
Risk Assessment:	The risks within the preparation of the Statement of Accounts are well managed through the embedded processes in place.
Crime & Disorder:	None.
Customer Considerations:	None.
Carbon Reduction:	None.
Consultation:	Portfolio Holder for Corporate Services.
Wards:	All.

Background Papers:

Northumberland County Council Statement of Accounts 2019-20

Report sign off.

Authors must ensure that officers and members have agreed the content of the report:

	Name
Deputy Monitoring Officer/Legal	Helen Lancaster
Executive Director of Finance & S151 Officer	Chris Hand
Chief Executive	Daljit Lally
Portfolio Holder(s)	Nick Oliver

Alison Elsdon
Service Director: Finance
Telephone: 01670 622168
Alison.Elsdon@northumberland.gov.uk

Description	Balance at 1 April 2019 £000	(Increase)/ decrease £000	Balance at 31 March 2020 £000
General Reserves / Balances			
General Fund Reserve	-55,433	-1,495	-56,928
Total General Reserve	-55,433	-1,495	-56,928
Ring Fenced Reserves / Balances			
HRA	-28,812	548	-28,264
Earmarked Reserves – HRA	-2,894	-552	-3,446
HRA Capital Investment	-2,000	-2,000	-4,000
Total Ring Fenced Reserve / Balances	-33,706	-2,004	-35,710
Specific Reserves / Balances			
Capital Receipts - GF	-65	12	-53
Capital Receipts - HRA	-1,541	-1,508	-3,049
Capital Grants Unapplied	-27,874	-2,921	-30,795
Total Specific Reserves / Balances	-29,480	-4,417	-33,897
Earmarked Reserves			
Balances held by schools	-4,810	2,399	-2,411
Community Led Housing	-1,099	128	-971
Council Transformation Fund	-8,177	690	-7,487
COVID-19 Grant	-	-10,025	-10,025
Dedicated Schools Grant	-	625	625
Economy & Regeneration Investment Reserve	-	-435	-435
Estates Rationalisation	-11,519	1,353	-10,166
EU Exit Funding	-	-315	-315
Haltwhistle Repairs Reserve	-	-13	-13
Insurance	-8,263	-706	-8,969
Invest to Save	-10,784	277	-10,507
Legal Challenge	-1,000	263	-737
Local Authority Mortgage Scheme	-424	-	-424
NCC Economic Regeneration	-83	-	-83
Northumberland Line	-3,460	-6,742	-10,202
Northumberland Sport	-355	355	-
Planning Delivery Grant	-453	8	-445
Problematic Empty Properties	-	-50	-50
Regeneration Additional Capacity	-660	138	-522
Regeneration Development Reserve	-2,550	184	-2,366
Revenue Grants	-8,221	-226	-8,447
Rural Growth Network	-57	-18	-75
School Libraries	-25	-22	-47
Section 106	-5,814	-2,132	-7,946
Severe Weather	-2,500	-	-2,500
Social Fund	-900	98	-802
Sports Development	-141	-139	-280
Strategic Management	-46,753	11,654	-35,099
Violence Reduction Reserve	-	-30	-30

Description	Balance at 1 April 2019 £000	(Increase)/ decrease £000	Balance at 31 March 2020 £000
Winter Services	-2,000	-	-2,000
ADC Parks & Open Spaces	-42	11	-31
ADC Section 106	-58	4	-54
Total Earmarked Reserves	-120,148	-2,666	-122,814
Total Usable Reserves	-238,767	-10,582	-249,349